MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

BEC1834 –MICROECONOMICS

(All sections / Groups)

10 OCTOBER 2016
2.30 p.m. – 4.30 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 8 pages with:
   Section A: Forty (40) multiple-choice questions
   Section B: Three (3) structured questions

2. Answer all questions.

3. Please answer Section A in the multiple-choice answer sheet and answer Section B in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS

Answer all questions below in the multiple-choice answer sheet (40 marks)

1. In the circular-flow diagram,
   A. Households sell, firms buy in markets for goods and services
   B. Households sell, firms buy in markets for factors of production
   C. Households hire and use factors of production
   D. Households produce and sell goods and services

2. Profit and rent are the resource payment for
   A. Land and capital respectively
   B. Capital and labour respectively
   C. Capital and land respectively
   D. Labour and land respectively

3. If all resources are used efficiently to produce goods and services, a nation will find itself producing
   A. Inside its production possibilities frontier
   B. Outside of its production possibilities frontier
   C. Inside and outside of its production possibilities frontier
   D. Somewhere on its production possibilities frontier

4. Which of the following would shift the production possibilities frontier to the right?
   A. An increase in unemployment rate
   B. An increase in the economic growth
   C. More efficient use of the existing resources
   D. More efficient use of the existing technology

5. Suppose that the government establishes an effective price floor for local fruits. At the established price floor
   A. Buyers will bid against each other for the limited quantity of local fruits and seller will realize that they can raise their asking price
   B. The quantity demanded will generate a shortage in the market each month
   C. The quantity of local fruits supplied each month will exceed the quantity demanded
   D. Firms can only set price for local fruits based on the price floor or below it

6. The law of demand illustrates that the higher the price of a good, other things constant,
   A. The smaller the quantity demanded of that good
   B. The smaller the demand for that good
   C. The larger the demand for that good
   D. The larger the quantity demanded of that good

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7. All of the following except one are determinants of change in demand. Which is the exception?
   A. Tastes
   B. Prices of related goods
   C. Expectations
   D. Number of sellers

8. Assume that corn and potatoes are alternatives which could be grown by most farmers. A rise in the price of corn will
   A. Increase the supply of potatoes
   B. Decrease the supply of potatoes
   C. Increase the supply of corn
   D. Decrease the supply of corn

9. If one knows that demand has increased and supply increased, then one also knows that
   A. Equilibrium quantity has increased and equilibrium price may have increased or decreased or remained the same
   B. Equilibrium quantity has increased and equilibrium price remained the same
   C. Equilibrium price has decreased and equilibrium quantity may have increased or decreased or remained the same
   D. Equilibrium price has increased and equilibrium quantity may have increased or decreased or remained the same

10. If the price of a particular good increases and the demand for that particular good is elastic, then the percentage decrease in quantity demanded is ____ the percentage increase in price.
   A. Less than
   B. Greater than
   C. Equal to
   D. Need more information

11. In which of the following cases will the total revenue increase?
   A. Demand is elastic and product price increases
   B. Demand is inelastic and product price increases
   C. Demand is inelastic and product price decreases
   D. Demand is unitary elastic and product price decreases

12. A unit elastic supply curve is
   A. A horizontal straight line
   B. A vertical straight line
   C. A downward sloping straight line
   D. An upward sloping straight line

Continued...

13. Perfectly inelastic demand curve is
    A. Equal to infinity
    B. Where quantity demanded does not respond to price changes
    C. Where quantity demanded does not respond strongly to price changes
    D. Greater than one

14. The cross-price elasticity of demand between good A and good B is negative. This indicates all of the following except one. Which is the exception?
    A. An increase in the price of good A will shift the demand curve for good B to the left
    B. A decrease in the supply of good A will shift the demand curve for good B to the left
    C. An increase in the price of good B will shift the demand curve for good A to the left
    D. Good A and good B are inferior goods

15. If total product for each of five units of labour is 10, 30, 50, 65, 75, respectively, the diminishing marginal product set in
    A. When the first worker begins
    B. When the third unit of labour is added
    C. When the fourth unit of labour is added
    D. When the fifth unit of labour is added

16. If marginal cost exceeds average variable cost,
    A. Average variable cost is increasing
    B. Average variable cost is negative
    C. Marginal cost is greater than average total cost
    D. Average fixed cost is increasing

17. An increasing portion of a firm's long run average cost curve is attributable to
    A. Economies of scale
    B. Diseconomies of scale
    C. Constant returns to scale
    D. Diminishing marginal returns

18. If the price faced by a perfectly competitive firm is less than its average total cost but greater than its average variable cost when it produces a particular level of output, the firm is
    A. Incurring a loss in the short run, but it should continue to produce in order to minimise its loss
    B. Incurring a loss and should shut down its plant immediately in order to minimise its loss
    C. Making a positive profit and should continue to produce
    D. Breaking even and thus it should continue to produce a positive level of output

Continued...

19. If a firm in perfect competition charges the market price of RM10 per unit, its
    A. Marginal revenue is RM10 and its average revenue is less than RM10 per unit
    B. Average revenue is RM10 and its marginal revenue is less than RM10 per unit
    C. Average revenue is RM10 and its marginal revenue is RM10
    D. Average and marginal revenue are RM10 only for the first unit sold

20. If a firm is producing at an output where the total revenue curve crosses the total cost curve,
    A. Profit is zero
    B. Revenue is maximised
    C. Cost is minimised
    D. Profit is maximised

21. If a non-discriminating monopolist is operating at an output level where price equals average total cost, we can conclude that
    A. The firm is not maximising profit
    B. The firm is not earning its normal profit
    C. The firm should shut down in the short run
    D. Economic profit is zero

22. Monopolistic competitive firm's curve is more elastic than the monopoly demand curve because
    A. Each firm's output is small in relation to total market supply in monopolistic competitive market
    B. There is freedom of entry and exit in the monopolistic competitive market
    C. Monopolistic competitive firms are price makers
    D. Monopolistic competitive firm's products are differentiated

23. 'Efficiency and equity', is used to illustrate the principle that
    A. The cost of something is what you give up to get it
    B. People face trade-offs
    C. Rational people think at the margin
    D. People respond to incentives

24. Which of the following is the principle concerning how people interact?
    A. People face trade-offs
    B. Rational people think at the margin
    C. Markets are usually a good way to organize economic activity
    D. Prices rise when the government prints too much money

25. The opportunity cost of something is
    A. What you sacrifice to get the good
    B. What you are willing to pay for the good
    C. The price you pay for the good
    D. The price you pay for the scarce resources

Continued...

26. Which of the following is an example of complementary good?
    A. Pepsi and coke
    B. Pencil and ruler
    C. Battery and clock
    D. Table and chair

27. The average total cost curve and the average variable cost curve grow closer as output increases because
    A. The total variable costs are constant
    B. In the long run all costs are variable
    C. The average fixed cost decreases as output increases
    D. The average variable cost increases as output increases

28. A firm will not shut down as long as
    A. Total revenue is more than total variable cost
    B. Total revenue is more than total fixed cost
    C. Price is less than minimum average variable cost
    D. Price is less than minimum average fixed cost

29. A perfectly competitive firm facing a price of RM25 decides to produce 100 good X. Its marginal cost of producing the last unit is RM30. What will you advice the firm to do?
    A. Produce more good X
    B. Produce less good X
    C. Shut down temporarily
    D. Need more information

30. In the short run, monopoly firm will
    A. Always earns a pure profit
    B. Always earns a normal profit
    C. Always realizes a loss
    D. May realize an economic profit, a normal profit or a loss

31. In a perfectly competitive market, an individual firm's demand curve is
    A. Perfectly elastic
    B. Perfectly inelastic
    C. Downward sloping
    D. Upward sloping

32. The supply curve of a perfectly competitive firm is
    A. The marginal cost curve only if price exceeds the average total cost
    B. The marginal cost curve only if price exceeds the average variable cost
    C. The marginal cost curve only if price exceeds the average fixed cost
    D. Non-existent

Continued...

33. When compared to firms in perfect competition, monopolistic competition tends to charge ___ prices and offer ___ quantities of output
    A. Lower; lower
    B. Lower; higher
    C. Higher; lower
    D. Higher; higher

34. A perfectly discriminating pure monopolist will charge each buyer
    A. Price which equals the buyer's marginal cost
    B. Maximum price each would be willing to pay
    C. Different prices to compensate for differences in the characteristics of the product
    D. Different prices to compensate for differences in the prices of inputs of the product

35. The incidence of the tax falls more heavily on consumers when
    A. Demand curve is inelastic and supply curve is elastic
    B. Demand curve is elastic and supply curve is inelastic
    C. Demand and supply curves are elastic
    D. Demand and supply curves are inelastic

36. As we move downward and to the right along a linear, downward sloping demand curve,
    A. Both slope and elasticity remain constant
    B. Slope changes but elasticity remains constant
    C. Both slope and elasticity change
    D. Slope remains constant but elasticity changes

37. A price ceiling will be binding only if it is set
    A. Equal to the equilibrium price
    B. Above the equilibrium price
    C. Below the equilibrium price
    D. Either above or below the equilibrium price

38. When a tax is placed on the sellers of a product,
    A. Buyers pay less and sellers receive less than they did before the tax
    B. Buyers pay more and sellers receive more than they did before the tax
    C. Buyers pay more and sellers receive less than they did before the tax
    D. Buyers pay less and sellers receive more than they did before the tax

39. Prices of fish rise when there is a shortage of fish in the market is an example of a
    A. Negative economic statement
    B. Normative economic statement
    C. Positive economic statement
    D. Statement that contradicts one of the basic principles of economics

Continued...

40. If firm X producing zero units of output, the total cost to the firm is
    A. Zero in both the short run and the long run
    B. Its variable cost in the short run and zero in the long run
    C. Its fixed cost in the short run and zero in the long run
    D. Its fixed cost in both the short run and long run

SECTION B: STRUCTURED QUESTIONS (60 marks)

Answer all questions below in the answer booklet

Question 1

(a) State FOUR (4) determinants of price elasticity of demand and TWO (2) determinants of price elasticity of supply. Give an example for each determinant that tends to make the demand/supply for a good more elastic.

(12 marks)

(b) Mr. X noticed that the quantity demanded for his product A increased from 10,000 to 12,000 units when he lowered the price of the good from RM10 to RM8 per unit.

(i) What can he conclude on the elasticity of demand for product A? Show ALL your calculations and use two decimal points.

(4 marks)

(ii) How the changes in the price affect his firm's total revenue? Explain.

(4 marks)

(Total: 20 marks)

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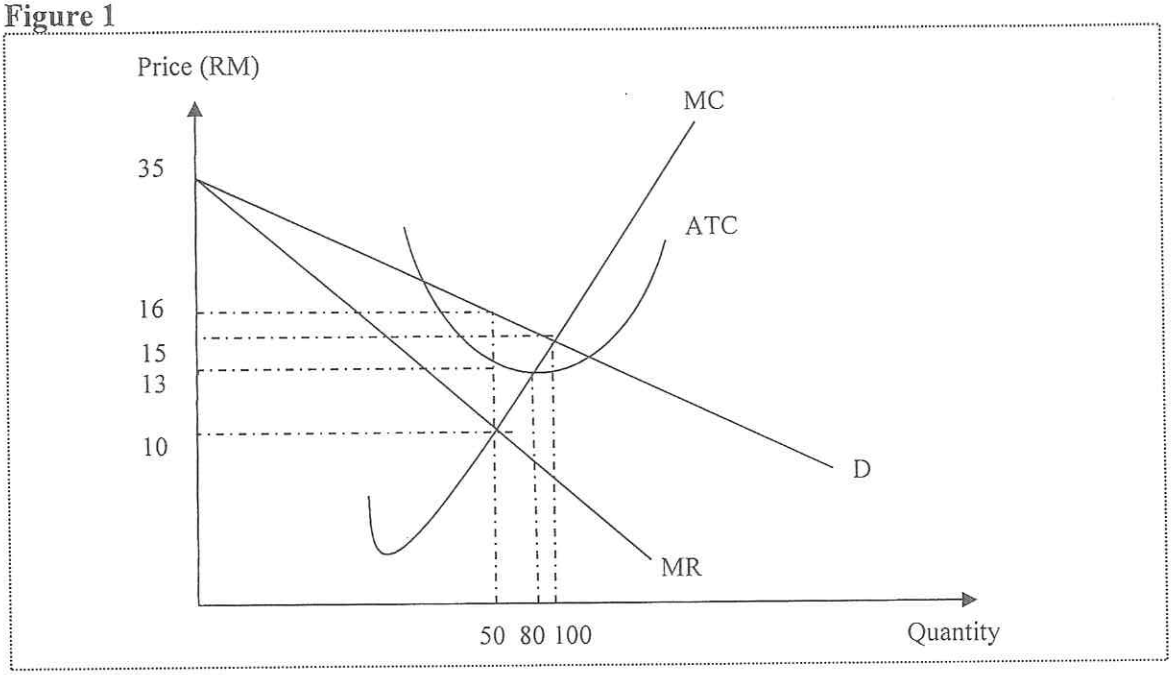
Question 2

Figure 1



(a) **Refer to Figure 1**. What is the profit maximizing price and output? Explain how to get the answers.

(4 marks)

(b) **Refer to Figure 1**. What is the firm's total profit or loss at equilibrium output? Show ALL your calculations.

(5 marks)

(c) Regardless of the type of profit earned in short run, a monopolistic competitive firm can only earn normal profit in long run. Discuss and draw an appropriate diagram for monopolistic competitive firm in the long run.

(11 marks)
(Total: 20 marks)

Question 3

(a) A price change has two effects on consumption. Differentiate between income effect and substitution effect.

(6 marks)

(b) Using appropriate diagrams, discuss how an increase in wage affects the labour supply when substitution effect is greater than income effect.

(14 marks)
(Total: 20 marks)
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